

## Message Text

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62

ACTION ARA-20

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 OMB-01 AGR-20 FEA-02 NSC-07

SS-20 STR-08 CEA-02 L-03 H-03 PA-04 USIA-15 PRS-01

DODE-00 DRC-01 /183 W  
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R 082119Z APR 74

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 8108

C O N F I D E N T I A L SANTIAGO 1831

EO 11652: GDS

TAGS: ECON, CI

SUBJ: AMBASSADOR'S DISCUSSION WITH ADMIRAL MERINO ON ECONOMIC  
MATTERS

1. SUMMARY. IN COURSE OF APRIL 8 MEETING WITH JUNTA MEMBER ADMIRAL JOSE MERINO, I OUTLINED U.S. ASSISTANCE PACKAGE WHICH IS BEING PROPOSED AND ASKED FOR MERINO'S VIEWS ON GENERAL STATE OF CHILEAN ECONOMY. HE SAID HIGH RATE OF INTERNAL INFLATION IS GOC'S MAJOR PREOCCUPATION AND IT WOULD TAKE WHATEVER MEASURE NEEDED TO BRING IT UNDER CONTROL. OTHER WORRIES INCLUDE HIGH COST OF OIL IMPORTS, ANTICIPATED WHEAT SHORTAGES BEGINNING JULY, AND LARGE CHILEAN REQUIREMENT FOR MACHINERY AND SPARE PARTS IMPORTS. END SUMMARY.

2. I TALKED TODAY WITH ADMIRAL MERINO FOR ABOUT 30 MINUTES ON PROBLEMS OF CHILE'S ECONOMY. AFTER ADVISING HIM OF AMBASSADOR EBERLE'S PROPOSED VISIT(SEPTEL), I INFORMED HIM OF THE SEVERAL USG INITIATIVES TO ASSIST CHILE WITH ITS ECONOMIC PROBLEMS--I.E. PL 480, AID LENDING, SPECIAL SCRAP STEEL ALLOCATION, EX-IM BANK GUARANTIES AND  
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INSURANCE, AND POSSIBLE HOUSING GUARANTY. MERINO EXPRESSED

HIS APPRECIATION.

3. IN RESPONSE TO MY QUESTION ABOUT HOW HE SAW CHILE'S PRESENT ECONOMIC SITUATION, MERINO SAID GOVERNMENT IS MOST WORRIED ABOUT INTERNAL INFLATION. HE ATTRIBUTED INFLATION PRINCIPALLY TO INCREASES IN MONEY SUPPLY RESULTING FROM LARGE CENTRAL BANK PURCHASES OF FOREIGN EXCHANGE (FROM RISING EXPORT EARNINGS AND FROM CHILEANS WHO ARE CONVERTING DOLLARS TO ESCUDOS). GOC'S PLAN, ACCORDING TO MERINO, IS TO STEP UP IMPORTS OF CONSUMER GOODS TO FORCE LOCAL MANUFACTURERS TO HOLD DOWN PRICES OR PERISH. MERINO ACKNOWLEDGED THAT GOC ANTI-INFLATIONARY POLICY WOULD INCREASE UNEMPLOYMENT BUT SAID THAT WOULD BE DEALT WITH AS NEEDED BY ANOTHER GOVERNMENT ORGANIZATION.

4. OTHER LARGE FACTOR IN INFLATION, ACCORDING TO MERINO, IS HIGH OIL IMPORT BILL. FUEL PRICES WERE UP OVER 400 PERCENT, COPPER (MAIN SOURCE OF FOREIGN EXCHANGE ONLY 100. MERINO SAID ONLY NOW IS FULL INFLATIONARY IMPACT OF FUEL PRICE RISE THROUGHOUT ECONOMY BEING REALIZED; BUT MARCH WOULD BE A BETTER MONTH THAN FEBRUARY, WHEN PRICES ROSE 24.5 PERCENT.

5. MERINO VOICED CONCERN OVER FOOD SITUATION, PARTICULARLY WHEAT, WHICH CHILE WOULD FACE FROM JULY THROUGH END OF YEAR. HE ALSO DETAILED SOME OF CHILE'S HUGE CAPITAL IMPORT REQUIREMENTS FOR MACHINERY AND SPARE PARTS IN SUCH AREAS AS COPPER AND NITRATE MINING AFTER THREE YEARS OF NEGLECT AND MISUSE. MERINO CONFIRMED PREVIOUS EMBASSY INFORMATION THAT, WHEN NECESSARY, THESE ITEMS ARE BEING BOUGHT FOR CASH, ALTHOUGH HE MADE PITCH THAT PREFERABLE METHOD WOULD BE THROUGH SUPPLIER CREDITS.

6. COMMENT: MERINO GAVE IMPRESSION THAT JUNTA IS STILL FIRMLY COMMITTED TO PUTTING ECONOMIC HOUSE IN ORDER EVEN THOUGH THIS WILL HAVE ADVERSE SHORT-RUN POLITICAL REPERCUSSIONS, AND WILL INTENSIFY ECONOMIC STRINGENCY IN COUNTRY.  
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## Message Attributes

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